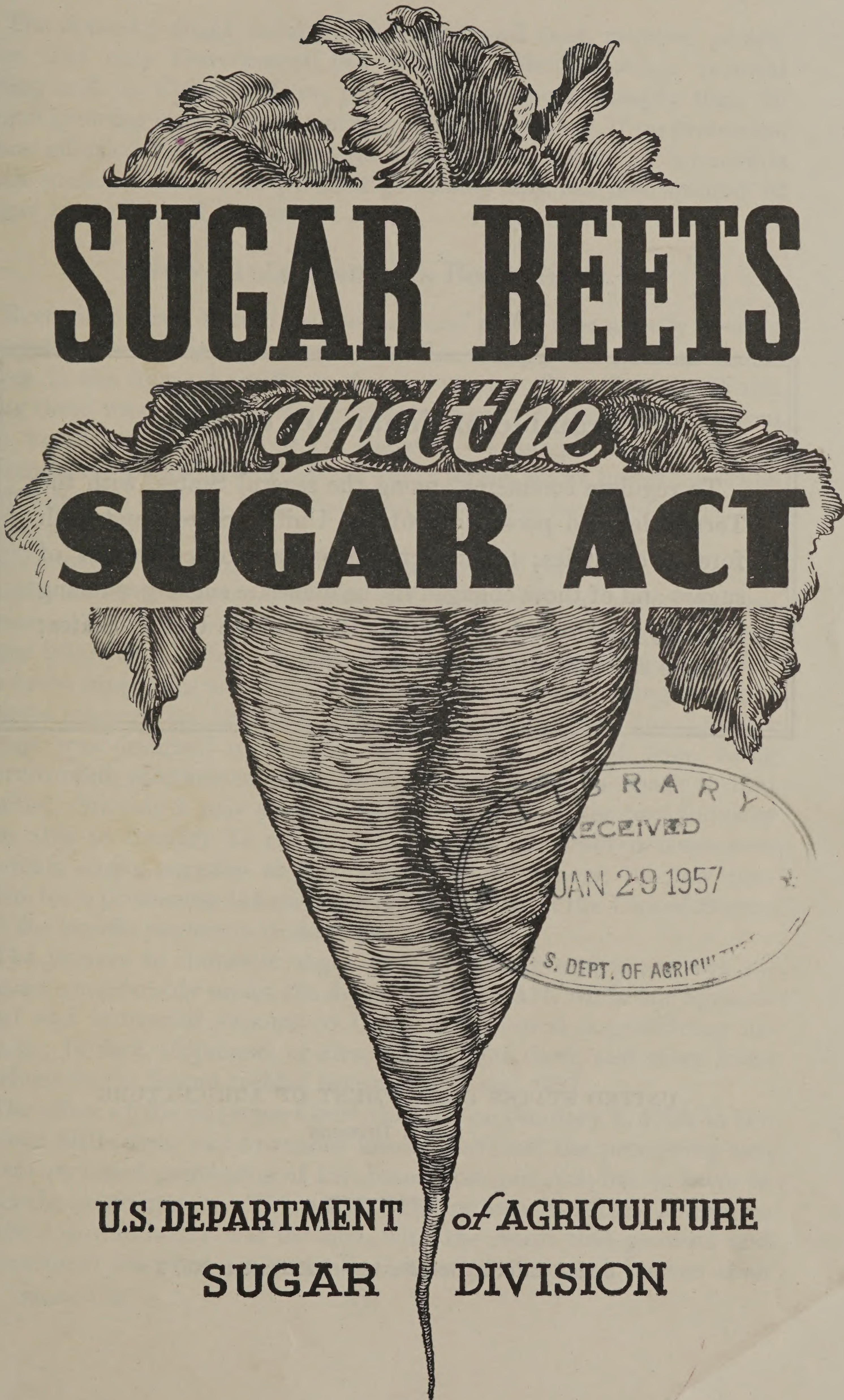
SUGAR BEETS and the SUGAR ACT



U.S. DEPARTMENT of AGRICULTURE
SUGAR DIVISION

Preamble of Sugar Act of 1937

To regulate commerce among the several States, with the Territories and possessions of the United States, and with foreign countries; to protect the welfare of consumers of sugars and of those engaged in the domestic sugar-producing industry; to promote the export trade of the United States; to raise revenue; and for other purposes.

UNITED STATES DEPARTMENT OF AGRICULTURE

Sugar Division

Sugar Information Series—Publication No. 1

Sugar Beets and the Sugar Act

The domestic sugar industry, both beet and cane, requires protection that only Government can provide. Many foreign tropical areas, such as Cuba or Java, produce sugar more cheaply than do sugar-growing areas in this country. For that reason, if no protection were afforded the domestic sugar industry, it would be impossible with present methods to produce profitably any sizeable amount of sugar in the United States.

How Protection Has Been Given

Ever since Civil War days the national policy has usually been to protect the domestic sugar industry. For many years protection was given in the form of tariffs on foreign sugar. But after the World War there was a very great increase in sugar production throughout the world and prices declined sharply. Although the tariff kept prices in the United States above world levels, sugar prices generally had fallen so low by 1932 that many domestic beet producers and processors were in distress.

To correct these conditions, a new method of protection was begun in 1934 under the Jones-Costigan Act, in accordance with President Roosevelt's recommendations. This law, supported by the domestic sugar industry, divided the United States market between the different areas supplying our sugar requirements, each area being assigned a quota representing its share. The quota system, which among other things was designed to prevent the American market from being overcrowded, guaranteed sugar beet growers a definite share in that market. In only 1 year prior to 1939, however, has the beet industry been able to furnish its share. The quotas also assured consumers adequate sugar supplies at fair prices. Furthermore, the law provided for a processing tax on all sugar consumed in the United States, and for benefit payments to domestic producers.

The returns to domestic sugar beet producers and processors increased considerably under the Jones-Costigan Act, while our agricultural and industrial exports to Cuba also showed a gratifying increase. In fact, shipments of rice, wheat flour, lard, and other farm products to the Island trebled between 1933 and 1937.

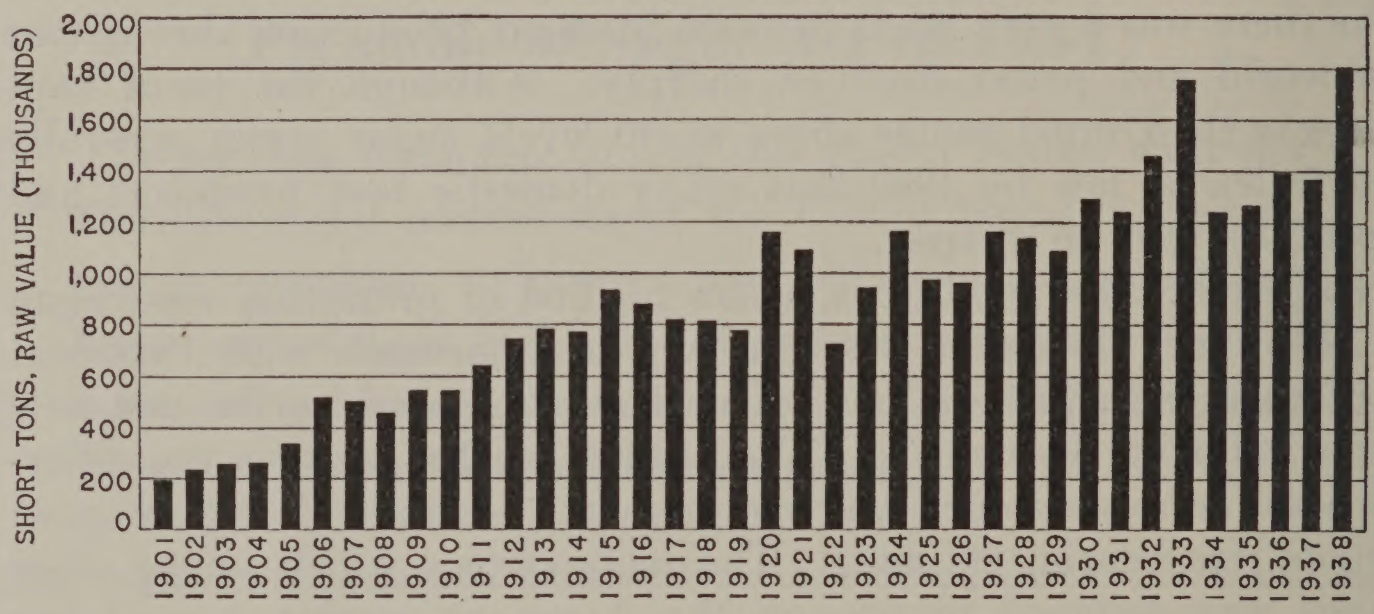
The effect of the Supreme Court decision on January 6, 1936, in the Hoosac Mills case, was to render unconstitutional the processing-tax, benefit-payment provisions of the Jones-Costigan Act, but to leave in effect the quota system. This affected the manner in which the income of the sugar industry was divided, with the result that growers and agricultural laborers got a smaller share of the total income than

under the tax and payment system. This was one of the reasons why Congress passed the Sugar Act of 1937.

The Present Sugar Act

The Sugar Act of 1937 carries out in general the plan of the earlier legislation. The Secretary of Agriculture, as under the Jones-Costigan Act, estimates consumer requirements each year and the market continues to be divided among the various producing areas, both domestic and foreign, that supply the United States. Under this arrangement most of the sugar consumed in the United States is produced in the continental and insular domestic areas. The sugar tariffs are still operative, but it is the quota system that has become the dominant protective factor.

BEET SUGAR PRODUCED IN UNITED STATES 1901-38



The Sugar Act also provides for an excise tax of 50 cents per 100 pounds, raw value (53.5 cents refined basis), on all domestic and foreign sugar consumed in the United States. It further provides for payments of 60 cents per 100 pounds, raw value, of commercially recoverable sugar to domestic producers who do not exceed their acreage allotments (when such allotments are necessary), and who meet certain other requirements, with smaller rates of payment for the larger producers. Naturally no payments are made to Cuban or other foreign growers.

The Sugar Act of 1937 is definite as to what shall be done and how it shall be done. The work, carried on through the Sugar Division and other agencies of the Department of Agriculture, consists chiefly in operating the quota system and in making the payments provided for in the act. In the course of this work, public hearings are held, investigations are conducted, available facts are studied, and the determinations required by law are made. The A. A. A. State and county agricultural conservation committees handle local administration.

In estimating the sugar requirements of American consumers, the Secretary of Agriculture must use the standards laid down in the law. In establishing quotas, the Secretary has no discretionary power since such quotas are based on percentages fixed in the act. In determining fair and reasonable minimum wages for field labor and minimum prices for sugar beets, compliance with which is included among the conditions of payment, the decisions are made only after investigation and after public hearings at which all interested parties may testify.

How the Sugar Act Works

This is the way the act works: First of all an estimate is made of the amount of sugar that the people of this country will need during the year. Congress has written into the law the standards to be used in making such an estimate. Then each of the sugar-producing areas supplying the United States market is assigned a quota representing its share of the market. The law provides that 55.59 percent of the market is to be supplied by domestic sugar-producing areas, but that under no conditions is the domestic share to be less than 3,715,000 short tons. The other 44.41 percent of the market is to be divided between foreign countries and the Philippine Islands. Congress, through the Sugar Act, has divided our sugar market, whenever consumption is 6,682,670 tons or higher, as follows:

	Percent of total	
Domestic areas:		
Continental beet sugar	23.19	
Mainland cane sugar	6.29	
Hawaii	14.04	
Puerto Rico	11.94	
Virgin Islands	.13	
		55.59
Under U. S. sovereignty:		
Philippine Islands	15.41	
Foreign areas:		
Cuba	28.60	
Other foreign countries	.40	
		44.41
		100.00

The current estimate of consumer requirements for 1939 is 6,755,386 short tons of raw sugar, and in accordance with the Sugar Act, domestic areas may supply 3,755,319 tons of this quantity. The beet area may furnish 1,566,719 tons, which is 23.19 percent of the market, and an amount larger than the area has marketed in any calendar year prior to 1939.

The act directs the Secretary of Agriculture to provide for beet sugar marketing allotments to processors if he finds that such allotments are necessary to afford everyone in the business an opportunity to market his fair share of the area's quota, and to avoid disorderly

marketing. Because of the record production in 1938 amounting to 1,803,000 tons of sugar, raw value, and the stocks carried over from that year, it is estimated that the total supply of beet sugar available for marketing in 1939 will be greater than the area's 1939 quota of 1,566,719 tons. Consequently, marketing allotments are necessary in 1939 for the first time since the present act became effective.

The total acreage allocated for 1939 to enable the beet area to meet its sugar marketing quota in 1940, when the bulk of the 1939 beet sugar crop is marketed, and to provide a normal carry-over, was 1,030,000 acres. This acreage has been divided among growers and each grower's allotment, expressed in acres, is known as his "proportionate share" of the total quantity of sugar beets needed to enable the beet area to meet its quota and provide a normal carry-over.

Beet growers who wish to qualify for conditional sugar payments may not exceed their acreage allotments (such allotments were not needed in 1937 and 1938, growers being paid on all the sugar they produced), and are required to meet other conditions specified in the Sugar Act. One of these is that they do not hire child labor. Other conditions are payment of at least the minimum wages established for workers, preservation and improvement of soil fertility, and, if the producer is also a processor, payment of fair prices for sugar beets bought from other producers.

Special conditional payments serve as limited crop insurance for which growers pay no premiums. If drought, flood, storm, freeze, disease, or insects cause widespread damage and reduce yields below 80 percent of normal, payments are made on 80 percent of the normal yield of the harvested acreage on each farm, no matter how low the actual yield may be. If similar conditions force farmers to abandon completely some or all of their beet acreage, payments are made on a third of the normal yield of the abandoned acreage.

Although the sugar excise tax levied by the act reduces the "net proceeds" which afford the basis of settlement for sugar beets, the lower price received by growers from processors is more than made up by the conditional payments to growers under the act. Therefore, the actual effect of the tax and payment phases of the program is to give sugar producers a larger share of the total sugar income than they would otherwise receive.

Example: A northern Colorado grower selling sugar beets testing 16 percent sucrose to a beet sugar factory under purchase agreements used in that area in 1938, with the consumer price the same in each instance:

	Per ton of sugar beets
When **no** tax effective and factory's "net proceeds" per bag of refined sugar is \$3.75, grower would receive from factory	\$5.19

	Per ton of sugar beets
With tax effective factory's "net proceeds" would be \$3.215 per bag and grower would receive from factory	\$4.36
Payment from Federal Government	1.83
Total grower income	\$6.19

In the example given, the effect of the tax-payment feature is to increase the grower's income by $1 per ton of sugar beets processed without increasing the price of sugar to the consumer; of course, the processor's income is reduced by approximately 75 cents per ton.

Results of the Sugar Program in the Beet Area

The effect of the quota limitations has been to assure sugar beet growers approximately a quarter of the American market. The share of the American sugar market enjoyed by beet producers is larger today than before the sugar program went into effect.

The quota system has kept the average United States price of raw sugar above what it would have been under the former tariff rate of 2 cents per pound on Cuban raw sugar. In addition to receiving the benefit of the price differential resulting from the quota system, the grower may qualify for the conditional payments and the special abandonment and deficiency payments. It is estimated that for the 1938 beet crop, the protection which the quota-benefit payment combination afforded the industry, in relation to the so-called world price, equaled 2.2 cents per pound of sugar, or the equivalent of an ad valorem tariff of more than 170 percent.

Since 1934 the acreage and value of the sugar beet crop have increased substantially. The improvement which has taken place is shown in the following table:

SUGAR BEETS

	Harvested acreage	Average income per ton	Grower income
Average 1909–14	485, 000	$5. 50	$26, 697, 000
Average 5 years preceding sugar program (1929–33)	785, 000	6. 09	54, 249, 000
Average 5 years following sugar program (1934–38)[1]	798, 000	6. 79	60, 428, 000
1938 [1]	930, 000	6. 30	72, 814, 000

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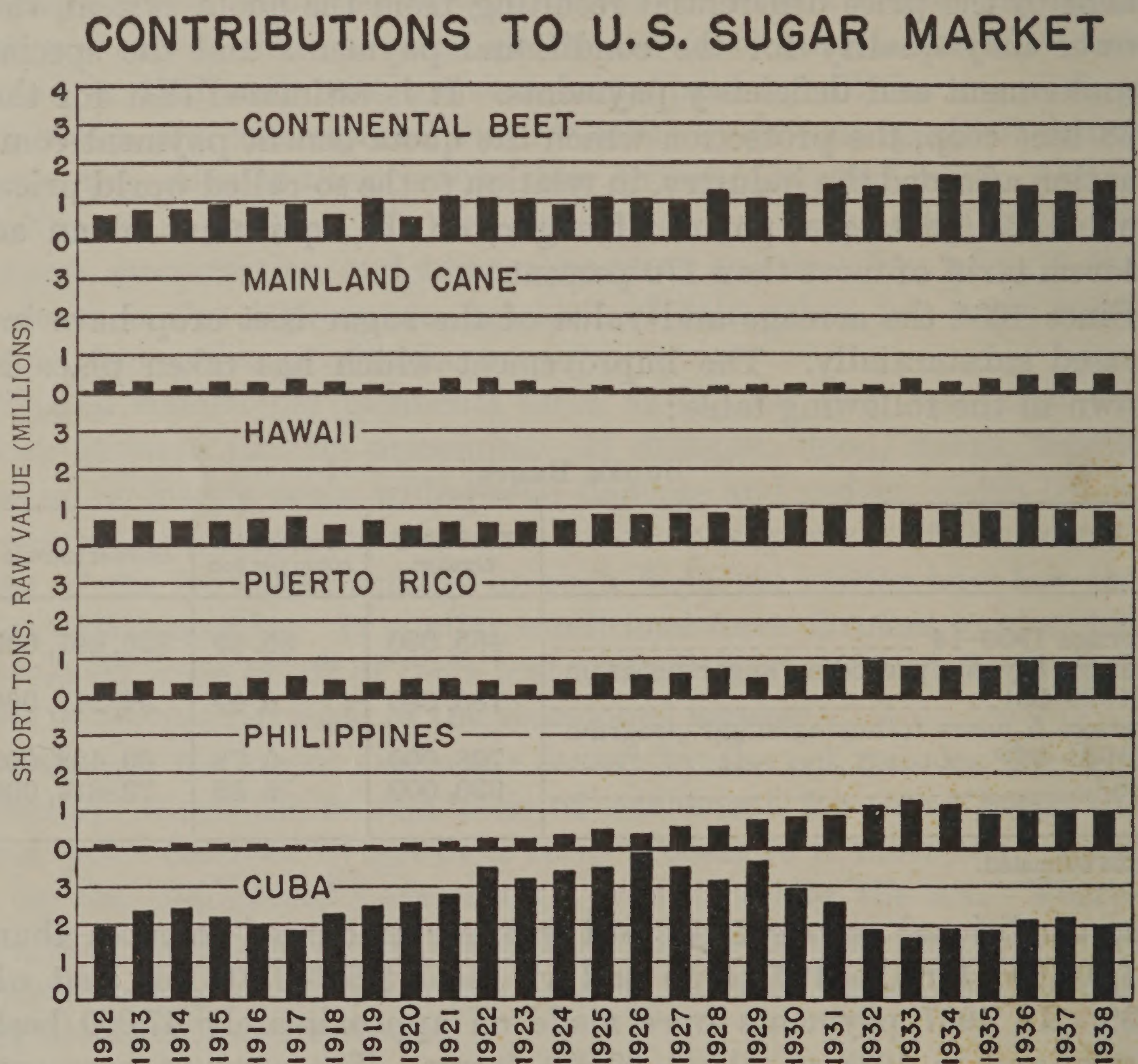
The conditional payments to beet growers amounted to more than $17,000,000 for the 1937 crop and to about $22,000,000 for that of 1938. In 1937 payments were made on approximately 47,000 beet farms, and in 1938 on about 60,000 farms. The average payment per farm during these 2 years was around $365, and that per harvested acre was approximately $23. Effective limitation of sugar beet acreage or production was not a condition for payment in either of these years. Since the sugar programs have been in effect beet growers have each year received parity or near parity income from their beets.

The whole program of protection and benefits is based upon a fair division of the United States market. It would not be to the interest

of either American farmers as a whole, or of American consumers to reduce Cuba's share of this market. Cuba has long been one of our most important foreign markets for agricultural and industrial products. The Republic normally takes about 40 percent of all our agricultural exports to Latin American countries, and chief among her purchases of farm products are wheat flour, potatoes and other vegetables, lard and other meat products, rice, and fruits and nuts. The large decline in our imports of Cuban sugar from 1928 to 1932 is estimated to have been accompanied by a reduction in the Cuban market for American agricultural products from more than 800,000 acres of our land. Between 1933 and 1938, however, Cuba's purchases of all kinds of products from us rose from $22,674,000 to $75,152,000, an increase of more than 230 percent.



If more sugar is used by American consumers the present program provides for a corresponding increase in the quota of the beet area. Unless the market expands, however, the quota of any one group of producers cannot be enlarged without lowering the quotas of other groups and thus destroying the balance of the whole system.

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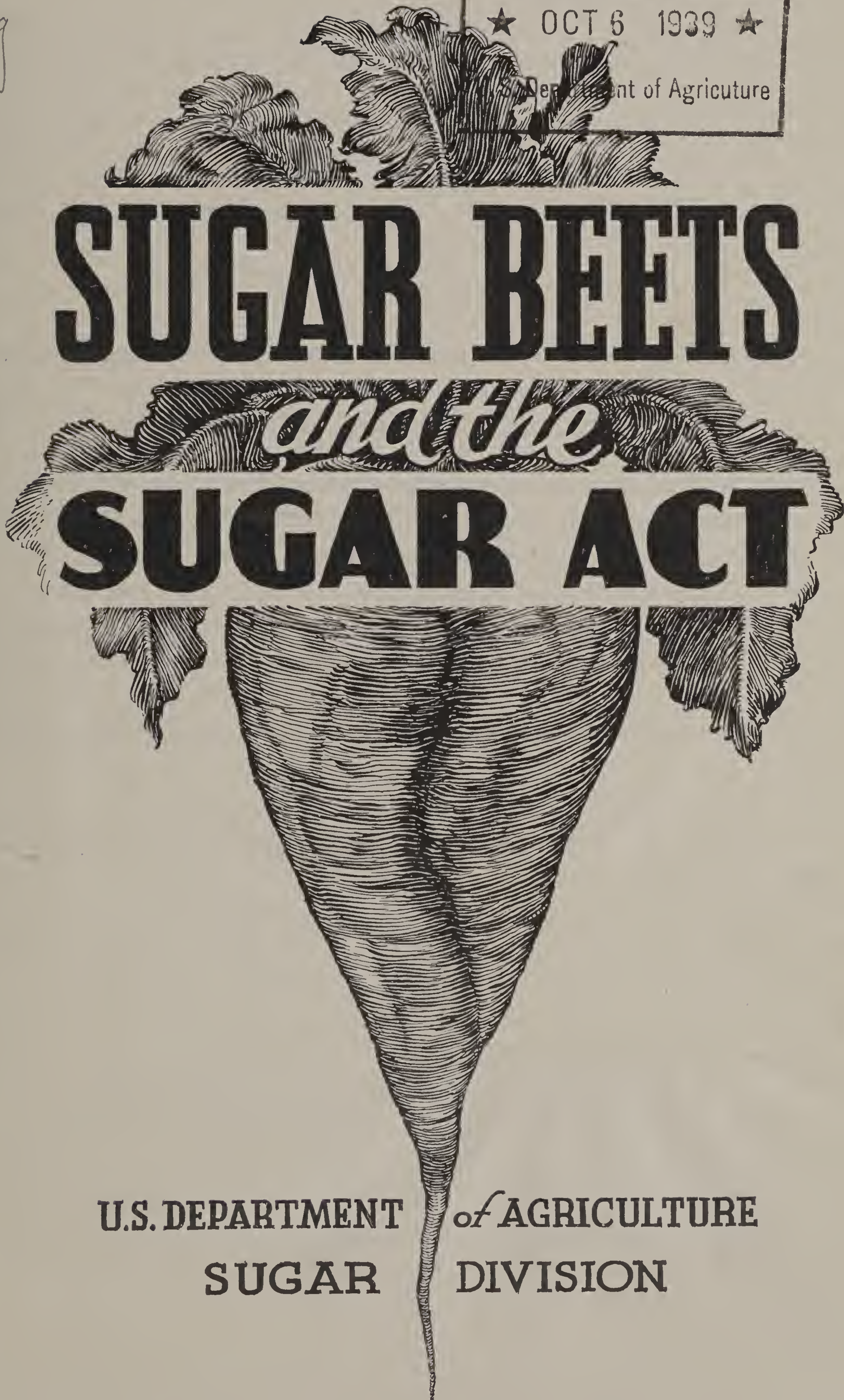
SUGAR BEETS *and the* SUGAR ACT



U.S. DEPARTMENT *of* AGRICULTURE
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To correct these conditions, a new method of protection was begun in 1934 under the Jones-Costigan Act, in accordance with President Roosevelt's recommendations. This law, supported by the domestic sugar industry, divided the United States market between the different areas supplying our sugar requirements, each area being assigned a quota representing its share. The quota system, which among other things was designed to prevent the American market from being overcrowded, guaranteed sugar beet growers a definite share in that market. In only 1 year prior to 1939, however, has the beet industry been able to furnish its share. The quotas also assured consumers adequate sugar supplies at fair prices. Furthermore, the law provided for a processing tax on all sugar consumed in the United States, and for benefit payments to domestic producers.

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NOTE:

This publication was prepared in response to numerous requests for a brief explanation of the programs under the Sugar Act of 1937, and their relationship to the sugar beet grower. It was written and printed before the sugar quotas were suspended by the President's proclamation of September 11, 1939. The publication is being distributed to persons requesting it, because of the basic information it contains of interest to sugar producers.

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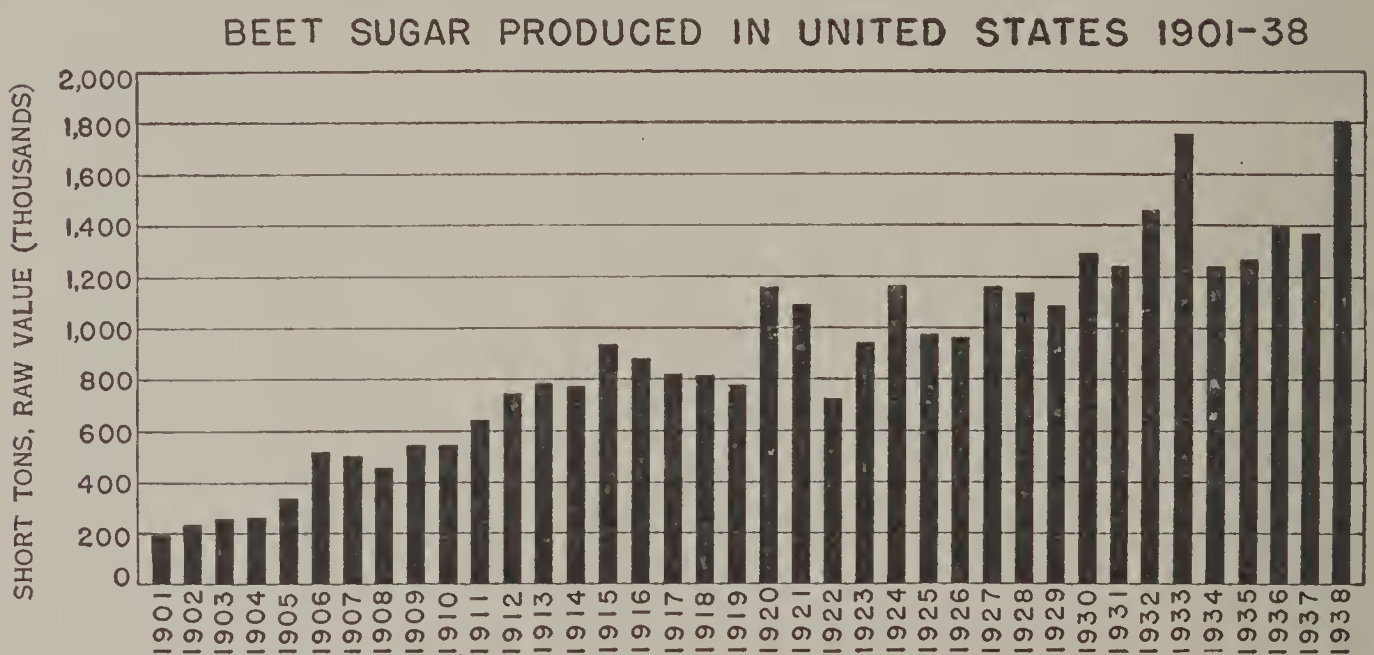

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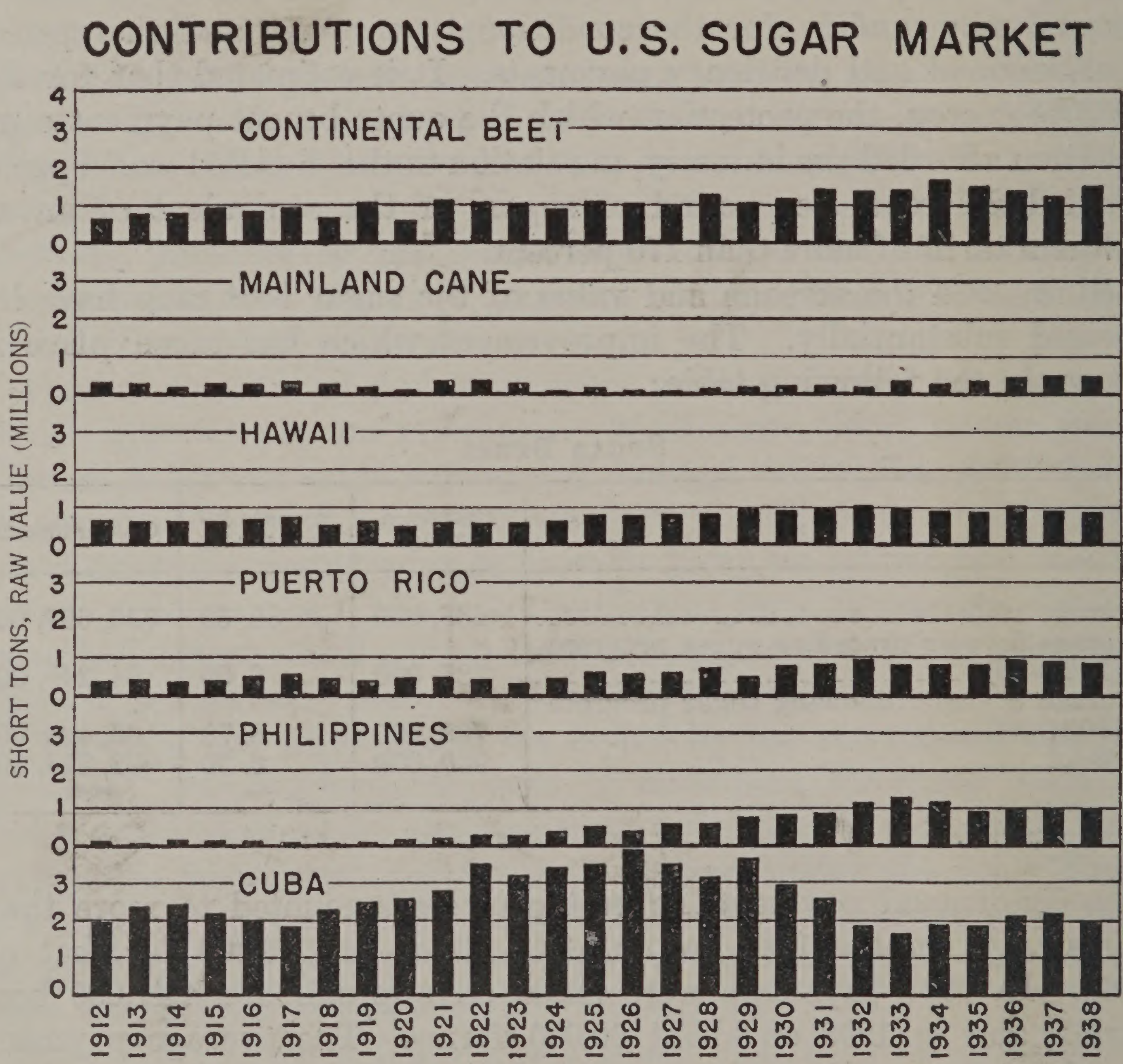
Effect of Sugar Program on Export Outlets

Both the Senate Committee on Finance and the House Committee on Agriculture, in reporting favorably on the Sugar Bill in 1937, stated:

> Producers of American agricultural crops and industrial products which require export outlets for their surpluses and export industries are protected by continuance of the principle now in effect for sharing of the American sugar market as between foreign and domestic producing areas . . . .

The foreign area which enjoys the largest share of our sugar market is Cuba. The Republic has long been one of our most important foreign markets for agricultural and industrial products. Cuba normally takes about 40 percent of all our agricultural exports to Latin American countries, and chief among her purchases of farm products are wheat flour, potatoes and other vegetables, lard and other meat products, rice, and fruits and nuts. The large decline in



our imports of Cuban sugar from 1928 to 1932 is estimated to have been accompanied by a substantial reduction in the Cuban market for American agricultural products. Between 1933 and 1938, however, Cuba's purchases of our agricultural products increased considerably while her total purchases from us rose from $22,674,000 to $75,152,000, or more than 230 percent.

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